

City of Anaheim  
Example-Fiscal Impact Discussion



CITY OF ANAHEIM, CALIFORNIA

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Housing and Neighborhood Preservation Office  
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DATE: DECEMBER 12, 2000

TO: CITY MANAGER/CITY COUNCIL

FROM: COMMUNITY DEVELOPMENT DEPARTMENT

SUBJECT: ESTABLISHMENT OF A MILLS ACT PROGRAM FOR THE  
PRESERVATION OF HISTORIC STRUCTURES

**RECOMMENDATION:**

That the City Council, by motion, approve a Mills Act Program for the preservation of historic structures.

**DISCUSSION:**

The Mills Act is a state law enacted in 1972 that encourages the preservation and maintenance of qualified historic structures. The Act permits cities to enter into agreements with owners of Qualified Historic Structures to preserve and maintain their properties, in exchange for the County Assessor assessing their property by utilizing a formula established by the State.

In recent times, staff has received numerous inquiries from owners of historic structures in the Anaheim Colony Historic District, asking whether the City of Anaheim would implement such a program. Staff researched Mills Act programs in Orange County and Los Angeles County and is recommending establishment of such a program for Anaheim.

With Council approval of the attached program guidelines, the Mills Act program can be implemented for owners of eligible Qualified Historic Structures. This program will have a positive impact on the Historic District as well as individual homes, serving as an incentive for property owners to restore, rehabilitate, and maintain their properties in accordance with standards established by the United States Secretary of the Interior.

Establishment of the Mills Act Program was discussed on two recent occasions at the Anaheim Colony Neighborhood Council, which endorsed the program. This item was also brought as an action item on November 13, 2000 to the

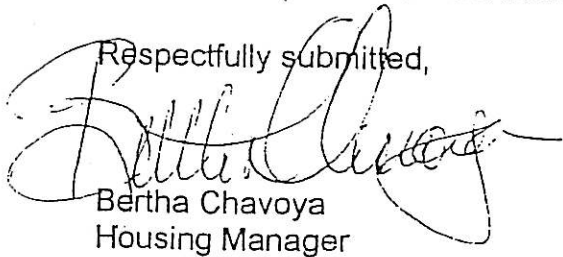
City Manager/City Council  
Mills Act Program  
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Anaheim Redevelopment and Housing Commission. The Redevelopment and Housing Commission recommended Council approval of the Mills Act Program.

**IMPACT ON THE BUDGET:**

Estimated impact to the General Fund of \$6,000 per year.

Respectfully submitted,



Bertha Chavoya  
Housing Manager

Concurred by,



Elisa Stipkovich  
Executive Director

Attachments

## City of Anaheim Mills Act Program

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### Background

The Mills Act, enacted in 1972, permits the City to enter into agreements with persons owning Qualified Historical Structures reducing property taxes based on a State formula. Mills Act participants may realize a property tax saving of approximately 50% per year.

### Program Purpose

To establish guidelines permitting persons owning Qualified Historic Structures to enter into agreements implementing the Mills Act in Anaheim. The guidelines will establish the means by which such owners can apply for Mills Act agreements. These guidelines will encourage purchase and rehabilitation of historical structures.

### Qualified Historical Properties

1. Listed on the National Register of Historical places.
2. Listed on the City of Anaheim's List of Historical Structures and in compliance with all housing codes and the Department of Interior Standards.

### Required Contract Provisions

1. Term is for 10 years with an evergreen provision providing one year automatic extensions annually.
2. Property must be maintained in accordance with United States Department of the Interior Standards and City Housing Code and State Historical Building and Housing Codes.
3. Property shall be available for periodic examinations by the City, County Assessor and State Officials.
4. Each party may file a Notice of Non-Renewal; however the City may cancel the Contract if the Owner has breached any of the conditions only after holding a public hearing.

## Historical Property Valuation

The County Assessor does not consider sales data to set value, but rather utilizes the capitalization of income approach. The property tax is set by using estimated market rent minus expenses, divided by a capitalization rate set by State regulations.

## Procedures

- Staff will process a maximum of 30 Agreements per calendar year.
- Fee: No fee will be charged for processing of applications.
- A letter explaining the provisions of the Mills Act program and application will be sent to the 160 property owners whose houses were surveyed in depth.
- Applications will be processed on a first-come first-served basis, with priority given to those applications that are complete.
- Following receipt of a completed application, NPO staff will review the application and inspect the property for improvements made to the exterior of the structure for compliance with the U.S. Secretary of Interior Standards and proposed improvements.
- If the structure is in non-compliance, the applicant will have 6 months to make the improvements, with a 6-month extension if the applicant has shown good-faith efforts to make the improvements.
- The Mills Act Agreement for the property is prepared and executed by the property owner and Executive Director of the Community Development Department.
- The Agreement is recorded with the County Recorder and forwarded to the Orange County Tax Assessor's office for calculation of the tax savings.



## Mills Act (continued)

### EXAMPLE OF COMMERCIAL PROPERTY TAX SAVINGS FROM THE MILLS ACT

<u>WITH MILLS ACT</u>		<u>WITHOUT MILLS ACT</u>	
Gross Income.....	\$2,000,000 ( <i>\$20/square foot x 100,000 square feet</i> )	Property Assessed Valuation.....	\$15,000,000 ( <i>\$150/sf x 100,000 sf</i> )
Less Expenses.....	<u>\$400,000</u> ( <i>annual insurance, repairs, utilities</i> )	Tax Assessment.....	<u>\$150,000</u> ( <i>\$15,000,000 x 1% property tax rate</i> )
Net Income.....	\$1,600,000		
Capitalization Rate			
Mortgage Rate	7.75%		
Risk Component	2.00%		
Tax Rate	1.00%		
Amortization Rate	5.00%		
Total.....	<u>15.75%</u>		
Property Adjusted Valuation.....	\$10,160,000 ( <i>\$1,600,000 / 15.75%</i> )		
Tax Assessment.....	<u>\$101,600</u> ( <i>\$10,160,000 x 1% property tax rate</i> )		
		<u>TAX SAVINGS</u>	
		Assessment without Mills Act	\$150,000
		Assessment with Mills Act	<u>- \$101,600</u>
		Annual Property Tax Savings.....	<u>\$48,400</u>

### EXAMPLE OF RESIDENTIAL PROPERTY TAX SAVINGS FROM THE MILLS ACT

<u>WITH MILLS ACT</u>		<u>WITHOUT MILLS ACT</u>	
Gross Income.....	\$14,400 ( <i>\$1,200/month x 12 months based on comparable rental rates</i> )	Property Assessed Valuation.....	\$250,000
Less Expenses.....	<u>\$2,000</u> ( <i>annual insurance, repairs, utilities</i> )	Tax Assessment.....	<u>\$2,500</u> ( <i>\$250,000 x 1% property tax rate</i> )
Net Income.....	\$12,400		
Capitalization Rate			
Mortgage Rate	7.75%		
Risk Component	4.00%		
Tax Rate	1.00%		
Amortization Rate	5.00%		
Total.....	<u>17.75%</u>		
Property Adjusted Valuation.....	\$68,888 ( <i>\$12,400 / 17.75%</i> )		
Tax Assessment.....	<u>\$688</u> ( <i>\$68,888 x 1% property tax rate</i> )		
		<u>TAX SAVINGS</u>	
		Assessment without Mills Act	\$2,500
		Assessment with Mills Act	<u>- \$688</u>
		Annual Property Tax Savings.....	<u>\$1,812</u>

City of Santa Monica  
Examples of Contracts-Fiscal Impact  
2004

Attachment L  
2004 -- SUMMARY OF FINANCIAL ANALYSIS FOR MILLS ACT CONTRACTS\*\*

Property Address	Assessed Value (Prop. 13)	Est. Assessed Value (MILLS ACT)	Current Tax (Prop. 13)	Est. Tax (MILLS ACT)	Est. Mills Act Tax as a % of Current Tax	City Revenue (Prop. 13)	City Revenue (MILLS ACT)	City Revenue Reduction
140 Hollister Avenue #1	\$424,820	\$229,091	\$5,027	\$2,371	47.2%	\$804	\$379	(\$425) -52.8%
140 Hollister Avenue #2	\$408,363	\$229,091	\$4,849	\$2,371	48.9%	\$776	\$379	(\$396) -51.1%
140 Hollister Avenue #3	\$481,014	\$229,091	\$5,332	\$2,371	44.5%	\$853	\$379	(\$474) -55.5%
140 Hollister Avenue #4	\$390,922	\$229,091	\$4,586	\$2,371	51.7%	\$734	\$379	(\$354) -48.3%
2034 La Mesa Drive	\$3,570,000	\$840,000	\$39,113	\$8,695	22.2%	\$6,258	\$1,391	(\$4,867) -77.8%
147 Georgina Avenue	\$2,714,000	\$1,145,455	\$29,266	\$11,857	40.5%	\$4,683	\$1,897	(\$2,785) -59.5%
2511 Beverly Avenue	\$2,100,000	\$397,091	\$23,100	\$4,110	17.8%	\$3,696	\$658	(\$3,038) -82.2%
2402 4th Street #4	\$540,000	\$160,364	\$4,593	\$1,660	36.1%	\$735	\$266	(\$469) -63.9%
2621 2nd Street	\$1,350,000	\$290,182	\$14,850	\$3,004	20.2%	\$2,376	\$481	(\$1,895) -79.8%
822 3rd Street	\$1,988,636	\$613,718	\$21,875	\$6,353	29.0%	\$3,500	\$1,016	(\$2,484) -71.0%
406 Adelaide Drive	\$4,584,900	\$2,290,909	\$50,026	\$23,714	47.4%	\$8,004	\$3,794	(\$4,210) -52.6%
<b>Total</b>						\$32,419	\$11,021	-\$21,398 -66.0%

\*\*This worksheet provides only an estimate analysis. The County of Los Angeles Office of the Assessor is responsible for calculating official Mills Act property tax assessments.

City of Santa Monica  
Examples of Contracts-Fiscal Impact  
2005

Attachment I

2005 -- SUMMARY OF ESTIMATE FINANCIAL ANALYSIS FOR MILLS ACT CONTRACTS\*\*

Property Address	Assessed Value (Prop. 13)	Est. Assessed Value (MILLS ACT)	Current Tax (Prop. 13)	Est. Tax (MILLS ACT)	Est. Mills Act Tax as a % of Current Tax	City Revenue (Prop. 13)	City Revenue (MILLS ACT)	City Revenue Reduction
331 Palisades Avenue	\$4,600,000	\$840,000	\$50,729	\$8,695	17.1%	\$8,117	\$1,391	(\$6,725) -82.9%
710 Adelaide Place	\$2,200,000	\$687,273	\$22,773	\$7,114	31.2%	\$3,644	\$1,138	(\$2,505) -68.8%
1911 La Mesa Drive	\$3,839,078	\$916,364	\$42,345	\$9,486	22.4%	\$6,775	\$1,518	(\$5,257) -77.6%
1333 Ocean Avenue	\$2,940,000	\$2,305,333	\$32,538	\$23,864	73.3%	\$5,206	\$3,818	(\$1,388) -26.7%
1337 Ocean Avenue	\$2,705,000	\$1,798,333	\$29,779	\$18,615	62.5%	\$4,765	\$2,978	(\$1,786) -37.5%
2619 3rd Street	\$1,361,146	\$519,273	\$15,100	\$5,375	35.6%	\$2,416	\$860	(\$1,556) -64.4%
404 Georgina Avenue	\$2,485,000	\$534,545	\$27,323	\$5,533	20.3%	\$4,372	\$885	(\$3,486) -79.7%
142 Adelaide Drive	\$3,197,655	\$916,364	\$34,940	\$9,486	27.1%	\$5,590	\$1,518	(\$4,073) -72.9%
<b>Total</b>						<b>\$40,884</b>	<b>\$14,107</b>	<b>-\$26,777</b> -65.5%

\*\*This worksheet provides only an estimate analysis. The County of Los Angeles Office of the Assessor is responsible for calculating official Mills Act property tax assessments each year.

City of Santa Monica  
Examples of Contracts-Fiscal Impact  
2006

Attachment C

2006 -- SUMMARY OF ESTIMATE FINANCIAL ANALYSIS FOR MILLS ACT CONTRACTS\*\*

Property Address	Assessed Value (Prop. 13)	Est. Assessed Value (MILLS ACT)	Current Tax (Prop. 13)	Est. Tax (MILLS ACT)	Est. Mills Act Tax as a % of Current Tax	Est. Reduction in Property Tax	City Revenue (Prop. 13)	City Revenue (MILLS ACT)	City Revenue Reduction
2614 2nd Street	\$729,175	\$267,273	\$7,971	\$2,767	34.7%	-\$5,204	\$1,275	\$443	-\$833
501 24th Street	\$2,700,806	\$763,636	\$31,757	\$7,905	24.9%	-\$23,852	\$5,081	\$1,265	-\$3,816

\*\*This worksheet provides only an estimate analysis. The County of Los Angeles Office of the Assessor is responsible for calculating official Mills Act property tax assessments each year.